

## **ADJUSTMENT BUDGET 2013/2014 FINANCIAL YEAR**

**(E/C 2014, C 2014) (5/1/3/2)**

### **REPORT OF THE DEPARTMENT OF THE CHIEF FINANCIAL OFFICER, (MS. M.N. LION)**

#### **PURPOSE OF THE REPORT**

The purpose of this report is to inform Council of the 2013/2014 budgeted versus the actual figures and to obtain Council's approval to revise the approved 2013/2014 Annual Budget through an Adjustment Budget.

#### **BACKGROUND**

Section 23 of the Budget Regulations published on 17 April 2009 in terms of Section 28 of the Municipal Finance Management Act, 2003 determines that an Adjustment Budget may be tabled in the Municipal Council at any time after the mid-year budget and performance assessment has been tabled in council, but not later than 28 February of the current year. It also determines that only one adjustment budget may be tabled in the Municipal Council during a financial year except when additional revenue is allocated to a municipality by National or Provincial Government.

The Municipal Finance Management Act determines that the accounting officer of the Municipality must by 25 January assess the performance of the Municipality during the first half of the financial year and make recommendations as to whether any adjustment budget is necessary. If an adjustment budget is required it must be supported by revised projections of revenue and or expenditure to the extent that this may be necessary.

Apart from the legislative requirements Council is also informed that:

- Greater Tzaneen Municipality established a Municipal Entity (GTEDA) on 1 July 2013 after the 2013/2014 budget was approved by Council.
- Mopani District Municipality did not approve the 2013/2014 budget as drafted and approved by Council.

With regard to the establishment of our Municipal Entity, GTEDA, Council is informed that the Municipal Budget Circular 66 for the 2013/2014 MTREF determines that, to ensure consistency of reporting across Municipalities and individual Municipalities with Entities, the Municipality with Entities must produce:

- An annual Budget, Adjustment Budget and monthly financial statements for the parent Municipality, as well as...
- A Consolidated Annual Budget, Adjustment Budget and monthly financial statements for the parent Municipality and all its Municipal Entities.

Due to the fact that GTEDA was established after our 2013/2014 Budget was approved the consolidated budget of Greater Tzaneen Municipality and GTEDA needs to be considered as an adjustment of Councils 2013/2014 budget and submitted to National and Provincial Treasuries for consideration.

With regard to the 2013/2014 Water and Sewer Budget approved by Council and submitted to Mopani District Municipality for approval and submission to National Treasury for consideration, Council is informed that Mopani district Municipality did not approve the budget. The changes approved by Mopani does not represent a true reflection of realistic revenue as required by National Treasury, nor does it provides sufficient budget provision to accommodate the salaries of officials in the water and sewer divisions. Mopani district Municipality will have to be informed to effect changes to their Water and Sewer Budgets and submit to their Council with the 2013/2014 Adjustment Budget.

## **LEGAL REQUIREMENTS**

Chapter 4 Section 28 of the Local Government Municipal Finance Management Act. No. 56 of 2003 determines the following with regard to the Municipal Adjustment Budget.

### ***“28. Municipal Adjustment Budgets***

- 1) ***A Municipality may revise an approved annual budget through an adjustment budget.***
- 2) ***An adjustment budget:-***
  - (a) ***must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;***
  - (b) ***may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;***
  - (c) ***may, within a prescribed framework, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality.***
  - (d) ***May authorize the utilization of projected savings in one vote towards spending under another vote;***

- (e) *May authorize the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;*
  - (f) *May correct any errors in the annual budget; and*
  - (g) *May provide for any other expenditure within a prescribed framework.*
- 3) *An adjustment budget must be in a prescribed form.*
- 4) *Only the Mayor may table an adjustment budget in a municipal council, but an adjustment budget in terms of subsection (2) (b) to (g) may only be tabled within any prescribed limitations as to timings or frequency.*
- 5) *When an adjustment budget is tabled, it must be accompanied by:-*
- (a) *an explanation how the adjustment budget affects the annual budget;*
  - (b) *a motivation of any material changes to the annual budget;*
  - (c) *an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and*
  - (d) *Any other supporting documentation that may be prescribed.*
- 6) *Municipal tax and tariffs may not be increased during a financial year except when required in terms of financial recovery plan.*
- 7) *Section 22(b), 23(3) and 24(3) apply in respect of an adjustment budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustment budget.*

**29. Unforeseen and unavoidable expenditure**

- 1) *The Mayor of the municipality may in emergency or other exceptional circumstances authorize unforeseeable and unavoidable expenditure for which no provision was made in an approved budget,*
- 2) *Any such expenditure:*
  - (a) *Must be in accordance with any framework that may be prescribed;*
  - (b) *May not exceed a prescribed percentage of approved annual budget;*
  - (c) *Must be reported by the mayor to the municipal council at its next meeting; and*

- 3) *(d) Must be appropriated in an adjustment budget.  
If such adjustment budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorized and section 32 applies."*

Chapter 5 Section 71 of the Municipal Budget and Reporting Regulations published in terms of Section 168 of the Municipal Finance Management Act, 2003 determines the following:

***Authorization of unforeseen and unavoidable expenditure***

71. (1) *The Mayor of a Municipality may authorize expenditure in terms of Section 29 of the Act only if:-*
- (a) The expenditure could not have been foreseen at the time the annual budget of the municipality was passed; and*
  - (b) The delay that will be caused pending approval of an adjustments budget by the municipal council in terms of Section 28(2)(c) of the Act to authorize the expenditure may:-*
    - (i) Result in significant financial loss for the municipality;*
    - (ii) Cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;*
    - (iii) Lead to loss of life or serious injury or significant damage to property; or*
    - (iv) Obstruct the municipality from instituting or defending legal proceedings on an urgent basis.*
- (2) *The Mayor of a municipality may not authorize expenditure in terms of section 29 of the Act if the expenditure:-*
- (a) Was considered by the Council, but not approved in the annual budget or an adjustments budget;*
  - (b) Is required for:-*
    - I Price increases of goods or services during the financial year;*
    - II New municipal services or functions during the financial year;*
    - III The extension of existing municipal services or functions during the financial year;"*

## **EXECUTIVE SUMMARY**

The Adjustment Budget process is governed by the Municipal Finance Management Act 56 of 2003 and the objectives are:

- To manage any adjustment to the approved operational and capital budgets in such a manner that it will enhance the quality of life of the citizens.
- To ensure that all adjustments to the approved budget are done in accordance with legislation.
- To manage the financial affairs of the Municipality in such a manner that sufficient cash resources are available to finance the adjustments to the approved budget of the Municipality.

The fact that payment rates in some of the areas in our Municipality are as low as 39% is witness that the economic downturn is still visible in the financial market. The high inflation rate and the negative effect that job losses and unemployment have on our consumers contribute to the poor payment rates.

Seeing that only one adjustment budget per year is allowed forces municipalities to plan ahead and to make sure that the spending patterns are kept below the actual money received. Legislation determines that if there is a material under collection of revenue during the current financial year the revenue and expenditure estimates must be adjusted downwards. If there are additional revenues to those budgeted for it can only be used to revise or accelerate spending programmes already budgeted for.

The budgeted and actual figures of the 2013/2014 financial year are discussed below to ensure that Greater Tzaneen Municipality complies with all legislative requirements.

## APPROVED OPERATIONAL BUDGET (2013/2014)

### BUDGETED INCOME

<b>Description</b>	<b>Amount</b>
Tzaneen Budget	R851 051 462
MDM Water Budget	R 56 611 905
MDM Sewer Budget	R 7 825 245
MDM Environmental Health Budget	R 10 000
Prov. Community Health Budget	R 0
Total Budget	<u>R915 498 612</u>

The 2013/2014 expenditure budget which has been approved by Council can be summarized as follows: (This budget includes the capital budget from Grants and Own sources)

### BUDGETED EXPENDITURE

<b>Description</b>	<b>Amount</b>
Operational Budget Tzaneen	R774 494 698
Operational Budget Water MDM	R 47 977 054
Operational Budget Sewer MDM	R 7 017 709
Operational Budget Environmental Health	R 6 626 784
Operational Budget Community Health	R 232 237
Capital Budget: Grants & Own Sources	R 169 629 847
Appropriations	<u>(R 90 479 717)</u>
Total Budget	<u>R915 498 612</u>

## CASH FLOW PROJECTIONS (2013/2014)

### ANTICIPATED ACTUAL INCOME (2013/2014)

<b>Description</b>	<b>Budget 2013/2014</b>	<b>Actual July to December</b>	<b>Anticipated Actual Income 12 Months</b>
Rates & Services	R503 070 244	R247 128 115	R536 288 130
Facilities & Equipment	R 259 100	R 440 707	R 880 000
Interest Earned – Ext Invest	R 3 001 000	R 297 635	R 297 635
Fines	R 3 210 136	R 1 625 476	R 3 250 946
Licenses & Permits	R 345 000	R 312 441	R 600 000
Income from Agency Serv.	R 45 519 350	R 20 775 458	R 41 550 916
Operating Grants & Subs	R352 590 579	R217 435 700	R323 159 000
Other Revenue	R 5 203 203	R 4 703 508	R 7 171 985
Disposal P P E	<u>R 2 300 000</u>	<u>R 300</u>	<u>R 2 300 000</u>
Income	<u>R915 498 612</u>	<u>R492 719 340</u>	<u>R915 498 612</u>

The anticipated actual income for the 2013/2014 financial year amounts to R915 498 612 which is in line with the budgeted amount.

The opinion is held that, with special attention to budget management and continued credit control more than the total budget amount can be recovered.

### ANTICIPATED ACTUAL EXPENDITURE (2013/2014)

The anticipated actual expenditure can be summarized as follows:

<b>2013/2014 EXPENDITURE DESCRIPTIONS</b>	<b>2013/14 BUDGET</b>	<b>ACTUAL JULY 2013 DECEMBER 2013</b>	<b>ANTICIPATED ACTUAL EXPENDITURE 12 MONTHS</b>
Salaries	194 158 777	104 161 851	208 323 702
Social Contributions	42 513 168	19 035 819	38 071 638
Employee Cost Capitalized	-7 969 778	0	0
Employee Cost Opex	-95 791 838	-46 063 259	-95 791 838
Remuneration Councillors	18 618 694	8 873 448	18 618 694
Bad Debts	17 706 000	0	17 706 000

Collection Cost	200 000	177 656	355 312
Inventory Loss	0	0	0
Depreciation	110 726 401	55 363 212	110 726 401
Repairs & Maintenance	134 938 120	57 575 800	126 000 000
Interest Ext. Borrowing	11 931 593	5 945 638	11 931 593
Bulk Purchases	250 811 294	115 944 386	250 811 294
Contracted Serv.	47 024 423	21 664 271	43 328 542
Grants & Sub	25 040 196	11 458 247	22 916 494
Grant & Sub Unconditional	6 508 499	1 937 959	6 508 499
General Expenditures	79 932 932	42 358 469	84 287 151
TOTAL	836 348 481	398 433 497	843 793 482

The anticipated actual expenditure amounts to R844 million which is R7,4 million more than budgeted for, this anticipated over expenditure can be attributed to the anticipated over expenditure on the following items:

- An amount of R13,6 million has been spend on overtime during the first six months of the year, compared to the total budgeted amount of R11,6 million. This represents a spending of 117% on the budgeted amount after six months.
- Council is also informed that 121% of the legal fees budget has been spent during the first six months of the financial year, with a number of invoices still to be paid. The opinion is held that this line item will result in the overspending of the Corporate Services Department if this issue is not addressed in this Adjustment Budget.

#### ANTICIPATED INCOME AND EXPENDITURE FOR THE 2013/2014 FINANCIAL YEAR

Anticipated Income 30/06/2014	R915 498 612
Anticipated Expenditure 30/06/2014	<u>R843 793 482</u>
Anticipated Surplus	<u>R 71 705 130</u>
Capital Expenditure	R169 629 847
Appropriations	<u>(R 90 479 717)</u>
Anticipated shortfall	<u>R 7 445 000</u>



## **DELIBERATIONS**

It is required from Municipalities to table a balanced budget, based on realistic estimates of revenue and expenditure that are consistent with their budgetary resources and experiences. The needs of the communities and residents have to be met as far as possible and it should be achieved within the financial capacity and resource constraints of the Municipality. Many hours are spent to prepare and approve a budget which is fair and well balanced and normally has the support of all stakeholders. Unfortunately there are always elements, which cannot be predicted. These elements may result in the overspending of the approved budget.

The 2013/2014 financial year is no exception and the infrastructure of Greater Tzaneen Municipality has been seriously affected due to the unusual rain pattern experienced the past few months. Roads in all towns are in a terrible state and need to be repaired.

Electricity lines have fallen over and the rain storms have caused serious damages to the electricity network all over our area of distribution which resulted in some of our electricity consumers being without electricity for long periods of time.

Other high additional requests received from departments includes R7 million requested for Legal fees.

An amount of R1 million was provided on the Budget for the purchase of land whilst the agreement has been signed that R5 million will be paid during the year.

Additional amounts, amounting to R77,9 million has been requested as adjustments on the 2013/2014 financial year.

Council is also informed that although the water and sewer Budget is drafted by Greater Tzaneen Municipality it is approved by the Water and Sewer Authority, Mopani District Municipality. These budgets were approved by Council on the 27<sup>th</sup> of March 2013 and submitted to Mopani District Municipality for consideration and submission to Provincial Treasury. On receipt of these Budgets from Mopani District Municipality it was found that the Budgets were changed without discussing it with Greater Tzaneen Municipality. The revenue items have been increased and the expenditure items have been decreased. It is assumed that the changes have been effected to reduce the Free Basic Service allocation of Greater Tzaneen Municipality with R12 million, from R28,2 million to R16,2 million. Council is also informed that the Free Basic Service allocation of the past two years which amounts to R27 million has not been transferred by Mopani District Municipality to Greater Tzaneen Municipality.

The amendments by Mopani cannot be accepted seeing that it will result in our Officials not been paid due to insufficient provision on the salary budget as well as insufficient provision on bulk purchases and interest on external borrowing. The

fact that all the revenue items have been increased will result in a shortfall in income.

Due to the fact that the budget as changed by Mopani does not represent a true reflection of realistic anticipated revenue as required by National Treasury, nor does it provide sufficient budget provision to accommodate the salaries of Officials and other expenses. It is recommended that Mopani be informed to adjust the 2013/2014 Budget as approved by the Council of Greater Tzaneen Municipality.

A summary of the budget and actual of these two budgets are attached hereto as Annexure " B ".

With regard to our newly established Municipal Entity, GTEDA Council is informed that no adjustment has been requested from the Entity. To comply with legislative requirements the revised 2013/2014 budget of GTEDA which is attached hereto as Annexure "A" has been consolidated with Councils budget and will be submitted to Provincial Treasury as required.

Before the requests are summarized Council needs to be informed of the budgeted versus the actual expenditure for the six months of the different votes / departments. The budget is approved on this level and must be managed on this level.

<b>ACTUAL VOTE/DEPARTMENT</b>	<b>BUDGET</b>	<b>ACTUAL FOR 6 MONTH</b>
Municipal Manager	R 11 277 949	R 4 526 907
PED	R 18 232 758	R 16 319 443
Financial Services	R 60 100 585	R 25 053 490
Corporate Services	R 71 520 720	R 39 692 556
Engineering Services	R167 166 347	R 76 195 426
Community Services	R151 011 395	R 75 714 124
Electrical Services	<u>R357 038 728</u>	<u>R160 931 551</u>
	<u>R836 348 482</u>	<u>R398 433 497</u>

The above mentioned figures indicate that the Directors are managing their budgets well and that, with the exception of the Corporate Services department, no department will overspend its budget. It must however be mentioned that the Capital Budget of which only 26% or R42,9 million of the R165 million has been spent during the first six months is not included in these figures and will have a negative effect thereon. The anticipated over expenditure on the Legal fees may result in Corporate Services overspending its budget. Although Directors managed their budgets well, special attention will have to be given to the Management of

overtime and legal fees seeing that Council is heading for an over expenditure on their 2013/2014 cash resources.

The following requests for adjustments on the 2013/2014 approved budget have been received from Directors.

## **OPERATIONAL EXPENDITURE REQUESTS**

### **OPERATIONAL EXPENDITURE REQUESTS FOR ADJUSTMENTS ON THE 2013/2014 APPROVED BUDGET**

#### **STRATEGIC DEVELOPMENT**

<b>Vote Number</b>	<b>Description</b>	<b>2013/2014 Budget</b>	<b>Six Months Actual</b>	<b>Request</b>	<b>Addition</b>
016 602 5001	Land (Capt)	1 250 000	16 900	5 000 000	3 750 000

#### **COMMUNITY SERVICES**

<b>Vote Number</b>	<b>Description</b>	<b>2013/2014 Budget</b>	<b>Six Months Actual</b>	<b>Request</b>	<b>Addition</b>
134 074 1265	Cont. Cleaning Services	8 200 000	4 731 674	9 100 000	900 000

#### **ELECTRICAL SERVICES**

<b>Vote Number</b>	<b>Description</b>	<b>2013/2014 Budget</b>	<b>Six Months Actual</b>	<b>Request</b>	<b>Addition</b>
173 066 1130	Dist Network	759 358	602 798	2 259 358	1 500 000
	Master Plan			1 700 000	1 700 000
		<b>759 358</b>	<b>602 798</b>	<b>3 959 358</b>	<b>3 200 000</b>

#### **ENGINEERING SERVICES**

<b>Vote Number</b>	<b>Description</b>	<b>2013/2014 Budget</b>	<b>Six Months Actual</b>	<b>Request</b>	<b>Addition</b>
063 066 1134	R & M Stormwater	2 530 432	5 400	3 530 432	1 000 000
063 066 1138	Tarred Roads	4 595 697	2 361 082	7 095 697	2 500 000
063 066 1142	Gravel Roads	5 350 313	4 401 169	8 850 313	3 500 000
	2 x TCB's Water			1 600 000	1 600 000
	Claude Wheatly			1 200 000	1 200 000
	Low Level Bridges			9 805 000	9 805 000
		<b>12 476 442</b>	<b>6 767 651</b>	<b>32 081 442</b>	<b>19 605 000</b>

## FINANCE

Vote Number	Description	2013/2014 Budget	Six Months Actual	Request	Addition
035 078 1306	Bank Fees	1 200 000	776 505	1 640 000	440 000

## CORPORATE SERVICES

Vote Number	Description	2013/2014 Budget	Six Months Actual	Request	Addition
038 078 1332	Leases photo copiers	523 272	682 008	823 272	300 000
038 078 1348	Printing & Stationary	200 000	180 609	300 000	100 000
053 078 1302	Advertising Recruitment	165 760	128 327	265 760	100 000
057 078 1364	Subsistence & Trav.	425 000	393 021	875 000	450 000
058 078 1333	Legal Fees	4 060 000	4 984 502	11 060 000	7 000 000
		<b>5 374 032</b>	<b>6 368 467</b>	<b>13 324 032</b>	<b>7 950 000</b>

## MUNICIPAL MANAGER

Vote Number	Description	2013/2014 Budget	Six Months Actual	Request	Addition
005 078 1310	Consultant & Prof Fees	81 000	0	1 000 000	919 000
153 078 1363	Subscriptions	1 960	0	181 960	180 000
		<b>82 960</b>	<b>0</b>	<b>1 181 960</b>	<b>1 099 000</b>

TOTAL ADDITIONAL REQUESTS R35 845 000.

Section 28 of the MFMA provides that a Municipality may revise its approved budget through an adjustment budget. It must however adjust the revenue and expenditure downwards if there is a material under-collection of revenue and if additional revenue is appropriated to the Municipality it can only be used to revise or accelerate spending programmes budgeted for and not to increase the approved expenditure budget.

Savings votes for all these requests could not be identified but considering the fact that Mopani District Municipality owes Council an amount of R37 million, based on the agreement between Mopani District Municipality and Greater Tzaneen Municipality, adjustment requests to the amount of R33 million have been considered.

The R37 million is apart from the R59 million free basic allocation to Greater Tzaneen Municipality which has not been transferred yet.

A special effort has been made by the Management of Mopani and Greater Tzaneen Municipality through the engagement of KPMG to finalize the matter. It is anticipated that payments of the outstanding balances will be effected soon.

An amount of R17 000 000 of the additional revenue will be utilized to finance the following adjustments requests.

<b>DESCRIPTION</b>	<b>AMOUNT</b>
Legal Fees (OPEX)	R 7 445 000
Low level Bridges (CAPEX)	R 7 555 000
Lenyenye Cemetery road (CAPEX)	<u>R 2 000 000</u>
Other Revenue	R17 000 000

The capital expenditure (CAPEX) will be discussed under capital expenditure requests later in this report. With regard to the operational expenditure, the request for an amount of R7 445 000 for legal fees, Council is referred to Chapter 5 Section 71 of the Municipal budget and reporting regulations published in terms of Section 168 of the MFMA which determines inter alia that:

The mayor of a Municipality may authorize expenditure in terms of section 29 of the Act if:-

- The expenditure could not have been foreseen at the time the annual budget was tabled.
- The delay in approval will result in significant financial loss to the Municipality.
- The delay in approval will obstruct the Municipality from instituting or defending legal proceedings on an urgent basis.

Based on the above mentioned the approval of additional legal fees on the adjustment budget is permitted by legislation.

The request for an adjustment on the 2013/2014 legal fees budget is motivated as follows:

### **Budget and Actual Spending up to 17 February 2014**

<b>DISCRIPTION</b>	<b>BUDGET</b>	<b>ACTUAL</b>	<b>OVERSPENDING</b>
Legal Fees	4 060 000	6 786 428	2 726 428
Invoices not paid yet.		719 896	719 896
<b>SUB TOTAL</b>	<b>4 060 000</b>	<b>7 506 324</b>	<b>3 446 324</b>
Telegenix		1 500 000	1 500 000
Phadima Phadima		1 000 000	1 000 000
Illegal Occupation of property at Nwamitwa		376 997	376 997
<b>TOTAL</b>	<b>4 060 000</b>	<b>10 383 321</b>	<b>6 323 321</b>

Apart from the above mentioned the following claims are also outstanding:

#### **Thabo Molepo VS Greater Tzaneen Municipality**

This matter is still pending in the High Court, sufficient funds must be made available to conclude this case which at this stage the cost cannot be projected.

#### **Mr. A.J.J. Le Grange VS Greater Tzaneen Municipality**

In this matter, the Municipality has since won the leave to appeal the High Court decision and it must be considered that this matter is in the Supreme Court of Appeal. The Appeal litigation is unfortunately expensive and this call for adequate funding to be made available so that by the time the Registrar issues a date, we have money to fund the applications.

An amount of R1 121 679 has been provided for these two claims.

The detail of Telegenix, Phadima Phadima and the illegal occupation of property at Nwamitwa is as follows:

#### **Telegenix VS Greater Tzaneen Municipality**

Following the settlement agreement, the Municipality has already paid R2 000 000.00 and therefore the amount of R1 500 000.00 is outstanding.

#### **Phadima Phadima Group Holdings**

This matter is still pending in the High Court despite court interdicts relating to the auctioning of the land in question, the merits must still be argued in court.

#### **Greater Tzaneen Municipality VS Illegal Occupation of Property at Nwamitwa.**

The High Court has granted an order in favour of the Municipality to evict illegal occupants. The legal costs are still outstanding to the value of R376 996.39.

During the discussion of the Adjustment Budget by the Budget Steering Committee the following adjustments were requested.

<b>Description</b>	<b>Amount</b>
Split meters (Change in technology)(Capt)	R4 500 000
Paperless Management	R 200 000
Training: Councillors	R 82 000
Subsistence & Travelling Councillors	R 300 000
Capacity Building	R 80 000
Water Tankers (Capt)	<u>R1 656 704</u>
	<u>R6 818 704</u>

There was also a request for SASRIA Cover for Councillors which had already been budgeted for during the 2013/2014 Operational Budget.

The requests for repairs and maintenance of Roads and Electricity will be delt with by the departments through virements.

The above mentioned requests of R6 818 704 for overspendings will be financed through the following savings on the Operational budget:

<b>Line Item</b>	<b>Description</b>	<b>Amount</b>
016 078 1310	Consultants & Prof. Fees	R 270 000
063 078 1310	Consultants & Prof. Fees	R 50 000
All 078 1321	Entertainment	R 177 000
063 074 1268	Contracted Serv. Aerodrome	<u>R 165 000</u>
		R 662 000
Savings from Capital Budget		<u>R6 156 704</u>
		<u>R6 818 704</u>

Section 71(i) of the Municipal Budget and Reporting Regulations determines that the Mayor of a Municipality may authorize expenditure that could not have been foreseen at the time the annual budget of the Municipality was approved, if the delay in approval will:

- Result in significant financial loss for the Municipality.
- Cause a disruption or suspension, or a serious threat to the continuation of a basic municipal service.
- Lead to loss of life or serious injury or significant damage to property.

The Mayor did not authorize any over expenditure relating to the above mentioned during the first half of the 2013/2014 financial year.

The Act also states that the Mayor may not authorize the expenditure if the expenditure:

- was considered by Council but not approved.
- if there were price increases of goods and services during the financial year.
- for new municipal services or functions.
- for the extension of existing municipal services or functions.

The Mayor did not authorize any over expenditure relating to the above mentioned.

The overspending of line items which may result in the overspending of any vote/department will have to be managed to prevent overspending of votes.

The Municipal Finance Management Act determines that Directors are responsible for managing their respective votes/department and that powers and duties for this purpose have been delegated in terms of Section 79.

Each Director must exercise financial management and take all reasonable steps within their respective departments to ensure that any unauthorized, irregular or fruitless and wasteful expenditure and any other losses are prevented.

## **CAPITAL EXPENDITURE REQUESTS**

The additional requests on the 2013/2014 Capital Budget amounts to R42,1 million. These requests can be summarized as follows:

Motupa Low level bridge	R 1 025 000,00
Thako to Sefolwe Low level bridge	R 950 000,00
Mopye Low level bridge	R 1 380 000,00
Politsi Low level bridge	R 2 200 000,00
Rikhotso, Khwekhwe, Mokonyane and	
Mawa Block 12 low level bridges	R 2 000 000,00
Lenyenye Cemetery road	R 2 000 000,00
Construction of speed humps	<u>R 2 200 000,00</u>
SUB TOTAL	<u>R11 755 000,00</u>



Purchase of land	R 3 750 000.00
MIG Counter funding	R 976 140.07
Ramotshinyadi Road	R12 497 614.93
Claude Wheatley Road	<u>R13 143 296.05</u>
SUB TOTAL	<u>R30 367 051.05</u>
 TOTAL	 <u>R42 122 051.05</u>

With regard to the request of R30 367 051.05 it is recommended that the capital requests be approved as roll over projects from the 2012/2013 financial year and financed as follows:

Purchase of land	R 3 750 000.00	Revenue from MDM
MIG Counter funding	R 976 140.07	Virements
Ramotshinyadi Road	R12 497 614.93	Revenue from MDM
Claude Wheatley Road	<u>R13 143 296.05</u>	Savings on Capt Budget
SUB TOTAL	<u>R30 367 051.05</u>	
 TOTAL	 <u>R42 122 051.05</u>	

The detail of the MIG reviewed 2013/2014 Budget which provides detail on the MIG counter funding, Ramotshinyadi road and Claude Wheatley road is as follows:

### FINANCIAL YEAR 2013/2014: ALLOCATION: R73, 247,000.00

APPROVED BUDGET BY COUNCIL 28/05/2013				REVIEW BUDGET		
Project Name	MIG Fund	Counter Fund	Total	MIG Fund	Counter Fund	Total
1. Sasekani to Nkowankowa Tar Road: Phase 3- D3763 (7km)	R1,199,475	R5,301,368	R6,500,843	R9,853,726	R11,896,368	R21,750,094
2. Senakwe to Morapalala Tar Road: Phase 2– D3215 (4,3km)	R9,282,635	R11,485,000	R20,767,635	R8,436,851	R11,485,000	R19,921,851
3. Mafarana to Sedan Tar Road – D3767: Phase 2 (2km)	R10,136,130	R6,001,022	R16,137,152	R16,817,601	R8,628 000	R25,445,601
4. Thapane to Moruji Tar Road: Phase2 D3248/D3175 (6,5km)	R27,791,380	R10,200,307	R37,991,687	R15,484,031	R0	R15,484,031
5. Ramotshinyadi Bridge: Phase 2	R 9,115,500	R2,890,530	R12,006,030	R6,832,911	R4,845,000	R11,677,911
6. Refurbishment and Upgrading of Nkowankowa Stadium	R 2,000,000	0	R 2,000,000			
7. Refurbishment of Tzaneen Swimming Pool	R 3,692,000	0	R 3,692,000	R6,892,000	R0	R6,892,000
8. Hawkers Esplanades	R 100,000	0	R 100,000			
9. Community Hall- Relela	R1,000,000	0	R1,000,000			
10. Park Renovations -Tzaneen	R1,000,000		R1,000,000			
11. Refurbishment and Upgrading of Lenyenye Stadium	R 5,000,000	0	R5,000,000	R6,000,000	R0	R6,000,000
APPROVED BUDGET BY COUNCIL 28/05/2013				REVIEW BUDGET		
Project Name	MIG Fund	Counter Fund	Total	MIG Fund	Counter Fund	Total
PMU Management	R 2,929,880	R0	R 2,929,880	R 2,929,880	R0	R 2,929,880
<b>TOTAL</b>	<b>R73,247,000</b>	<b>R35,878,227</b>	<b>R109,225,227</b>	<b>R73,247,000</b>	<b>R36,854,368</b>	<b>R110,101,368</b>

<b>MIG FUNDING AND COUNTER FUNDING NOT SPENT IN 2012/2013</b>						
1. Ramotshinyadi Road				R0	R12,497,614.93	R12,497,614.93

**OWN FUNDS/ CAPITAL BUDGET**

<b>APPROVED BUDGET BY COUNCIL 28/05/2013</b>				<b>REVIEW BUDGET</b>		
<b>Project Name</b>	<b>MIG Fund</b>	<b>Counter Fund</b>	<b>Total</b>	<b>MIG Fund</b>	<b>Counter Fund</b>	<b>Total</b>
1. Claude Wheately Road					R13,143,296.05	R13,143,296.05

The requests for capital projects amounting to R11,7 million mentioned below were also budgeted for during the 2012/2013 financial year but have not been implemented due to various reasons. Contractors have been appointed but the budget was not rolled over to the 2013/2014 financial year due to insufficient cash. Provision will however have to be made on the 2013/2014 Adjustment Budget seeing that most of the Contractors have been appointed.

The projects are summarized as follows:

a) Motupa low level bridge

The provision on the budget was R1 000 000,00 and the contract was awarded for R885 392,79. The contract amount was adjusted due to the delay in commencing with construction using CPA and the adjusted amount, amounts to R1 025 000,00 including VAT and consultant's fees.

b) Thako to Sefolwe low level bridge

The provision on the budget was R500 000,00 and the contract was awarded for R885 392,79. The contract amount was adjusted due to the delay in commencing with construction using CPA and the adjusted amount, amounts to R950 000,00 including VAT and consultant's fees.

c) Mopye low level bridge

The provision on the budget was R500 000,00 and the contract was awarded for R885 392,79. The contract amount was adjusted due to the delay in commencing with construction using CPA and the adjusted amount, amounts to R1 380 000,00 including VAT and consultant fees.

d) Politsi low level bridge

R1 500 000,00 was budgeted for this project in 2011/12 financial year. After the designs were completed and when the project was on tender stage, the Community decided to change the position of the project to another area within Politsi. This delayed the progress of the project since that new designs were required. The project is now on tender stage and the amount that needs to be provided is R2 200 000,00 VAT inclusive which includes construction work costs, contingencies, professional fees, supervision and disbursements.

e) Rikhotso, khwekhwe, Mokonyane and Mawa Block 12 low level bridges

During 2012/2013 financial year, R2 000 000,00 was budgeted for the construction of Rikhotso, Khwekhwe, Mokonyane and Mawa low level bridges . The Consultant was appointed for R306 100,00. The designs

are complete and construction will take place in 2013/2014 financial year. The amount required is R2 000 000,00 VAT inclusive to pay the consultant for designs, tender processes and commencement of the project.

f) Lenyenye Cemetery road

Lenyenye Cemetery road was budgeted for in the 2012/2013 financial year and R2 000 000,00 was available. This project could not start since we were still waiting for the approval of the cemetery site and it was only approved in the beginning of 2013/2014 financial year. It is therefore request that an amount of R2 000 000,00 be provided during budget adjustment in order to start with the upgrading of the road.

g) Construction of speed humps

The budget for this project is R2 200 000,00 and it was budgeted for in the 2011/2012 financial year. The reason why it was not used is because it was planned to be used to cover the shortfall on the budget for the construction of low level bridge and therefore R2 200 000,00 VAT inclusive need to be provided.

Due to insufficient funds the construction of speed humps cannot be accommodated during the 2013/2014 financial year. This project will have to be considered in future budgets.

The projects that can be accommodated are summarized as follows:

a)	Motupa lower level bridge	R1 025 000,00
b)	Thako to Sefolwe lower level bridge	R 950 000,00
c)	Mopye lower level bridge	R1 380 000,00
d)	Politsi lower level bridge	R2 200 000,00
e)	Rikhotso, Khwekhwe, Mokonyane and Mawa Block 12 low level bridges	R2 000 000,00
f)	Lenyenye Cemetery road	<u>R2 000 000,00</u>
	TOTAL	<u>R9 555 000,00</u>

The above mentioned projects will be treated as roll over projects seeing that they were provided for on the 2012/2013 Capital budget. The financing will be done through the additional revenue that will be recovered from Mopani District Municipality.

## **INCOME (DORA GRANTS)**

Adjustments that have been allocated to Greater Tzaneen Municipality in terms of Government Gazette No. 37203 of 30 December 2013 can be summarized as follows:

### **NEIGHBORHOOD DEVELOPMENT PARTNERSHIP GRANT**

2013/2014 Allocation (Gazette no. 36180)	R 5 000 000
Revised allocation (Gazette 36581)	R30 347 000
Adjustment: Additional Allocation	<u>(R 6 997 000)</u>
	<u>R23 350 000</u>

Adjustment to the amount of R18 350 000 have been promulgated in the Government Gazette.

The grant allocation has been increased by R18 350 000 which implies that the expenditure allocation with regard to this grant will also have to be increased by R18 350 000.

### **ENERGY EFFICIENCY AND DEMAND SIDE MANAGEMENT GRANT**

2013/2014 Allocation	R5 000 000
Adjustment: Additional allocation	<u>R2 000 000</u>
Adjusted Allocation	<u>R7 000 000</u>

An adjustment of R2 000 000 has been promulgated in Government Gazette 37203.

The Grant allocation in the 2013/2014 Budget must be increased with R2 million which implies that the expenditure allocation with regard to these Grants must also be adjusted by R2 million.

### **INDIRECT GRANTS: ALLOCATIONS-IN-KIND**

DORA also promulgates allocations-in-kind or incentives to Municipalities to meet their targets with regard to priority government programmes.

These Grants are managed by Province and must not be included in the Municipalities budget. The following three Indirect Grants have been adjusted in Government gazette 37203.

#### Neighbourhood Development Partnership Grant

2013/2014 Allocation	R1 500 000
Adjustment: Additional allocation	<u>R1 000 000</u>
Adjusted allocation	<u>R2 500 000</u>

#### Integrated National Electrification Programme Grant

2013/2014 Allocation	R28 694 000
Adjustment: Additional allocation	<u>R 875 000</u>
Adjusted allocation	<u>R29 569 000</u>

#### Rural Household Infrastructure Grant

2013/2014 Allocation	R 0
Adjustment: Additional Allocation	<u>R891 000</u>
Adjusted Allocation	<u>R891 000</u>

#### ROLL OVER REQUESTS

A roll over request for capital projects financed through conditional grants not finalized during the 2012/2013 financial year has been submitted to National Treasury for approval and the following roll over projects have been approved and must be included in the 2013/2014 Adjustment Budget.

The following is a sub-track from the letter received from National Treasury:

***“Your letters dated 29 August 2013 refers.***

***Approval is hereby granted in terms of section 21(2) of the Division of Revenue Act, (Act No. 5 of 2012) to retain an amount of R10.8 million allocated to your municipality in the 2012/2013 financial year through the Division of Revenue Act (DoRA). This approval is in respect of the Municipal Infrastructure Grant (R2.3 million), Municipal Systems Improvement Grant (R26 thousand), Neighborhood Development***

***Partnership Grant (R3.4 million) and Integrated National Electrification Programme (5.2 million).***

The following roll-over projects approved by National Treasury will have to be provided for in the 2013/2014 approved budget.

Description	Division	Amount
INEP	Electrical Services	R 5 200 000
MIG	Engineering Services	R 2 300 000
NDPG	Planning & Economic Dev.	R 3 400 000
MSIG	Financial Services	<u>R 26 000</u>
	Total Amount	<u>R10 926 000</u>

Roll over projects financed from Financial Sources other than Grants

These projects have been discussed under the Capital Expenditure requests.

## **WATER**

Mopani District Municipality is the water and sewer services authority whilst Greater Tzaneen Municipality is the water and sewer service provider. The day to day activities of these services are performed by Greater Tzaneen Municipality and Greater Tzaneen Municipality must therefore manage the budget of these services to ensure that no overspending takes place.

During the first six months of this financial year none of the R29.4 million Free Basic allocations has been received from Mopani District Municipality. Greater Tzaneen Municipality also incurred expenditure on boreholes and water tankers which are the responsibility of Mopani District Municipality and have not been budgeted for by Council. If this practice continues it will have a negative effect on Councils cash flow position and may limit the expenditure on the repairs and maintenance of Councils own assets.

This matter must be taken up with Mopani District Municipality to ensure that Council does not incurred expenditure on the water and sewer services which are executed in Mopani District Municipality area of jurisdiction. If Mopani consent to this matter Council will have to be remunerated in cash to ensure that Council's cash position is not affected negatively.



## RECOMMENDATIONS

- a) That the following adjustment with regard to Operational Expenditure be approved:

### Overspending

#### Corporate Services

- Legal fees 058 078 1333	<u>R7 445 000</u>
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That the overspending be accommodated by revenue to be collected from Mopani District Municipality and allocated against other income.

### Overspendings

Description	Amount
Paperless Management	R200 000
Training: Councillors	R 82 000
Subsistence & Travelling Councillors	R300 000
Capacity Building	<u>R 80 000</u>
	<u>R662 000</u>

That these overspendings be financed through the following savings:

### Savings

Line Item	Description	Amount
016 078 1310	Consultants & Prof. Fees	R270 000
063 078 1310	Consultants & Prof. Fees	R 50 000
All 078 1321	Entertainment	R177 000
063 074 1268	Contracted Serv. Aerodrome	<u>R165 000</u>
		<u>R662 000</u>

- b) That the following adjustments with regard to Capital Expenditure be approved:

Overspending

Motupa Low level bridge	R1 025 000
Thako to Sefolwe Low level bridge	R 950 000
Mopye Low level bridge	R1 380 000
Politsi Low level bridge	R2 200 000
Rikhotso, Khwekhwe, Mokonyane and	
Mawa Block 12 low level bridges	R2 000 000
Lenyenye Cemetery road	<u>R2 000 000</u>
SUB TOTAL	<u>R9 555 000</u>
Purchase of land	R 3 750 000
MIG Counter funding	R 976 140
Ramotshinyadi Road	R12 497 614
Claude Wheatley Road	<u>R13 143 296</u>
SUB TOTAL	<u>R30 367 050</u>
Split meters	R4 500 000
Water Tankers	<u>R1 656 704</u>
SUB TOTAL	<u>R6 156 704</u>
TOTAL	<u>R45 416 754</u>

Savings

- That the over expenditure of R9 555 000 which represent roll over projects be financed from revenue to be collected from Mopani District Municipality and allocated against other revenue.
- That the R3 750 000 Adjustment for the purchase of land be financed from revenue to be collected from Mopani District Municipality and allocated against other revenue.
- That the R976 140 be finances through virements in the department.
- That the Adjustment of R12 497 614 for Ramotshinyadi road be financed from Revenue to be collected from Mopani District Municipality and allocated against other revenue.
- That the Claude Wheatley road, split meters and water tankers be financed from the following savings:

LINE ITEM	DISCRIPTION	AMOUNT
002 608 5023	Office Equipment	R 370 000
012 608 5023	Office Equipment	R 280 000
032 608 5023	Office Equipment	R 400 000
052 608 5023	Office Equipment	R 120 000
062 608 5023	Office Equipment	R 470 000
140 608 5023	Office Equipment	R 470 000
063 600 5029	Renewal of assets	R 7 000 000
173 600 5005	Electricity Reticulation	R 8 000 000
173 608 5025	Other Assets	R 170 000
173 608 5029	Renewal of assets	R 300 000
183 608 5008	Streetlight infrastructure	R 1 500 000
183 608 5025	Other assets	<u>R 220 000</u>
		<u>R19 300 000</u>

- c) That the following adjustments on DORA Grant allocations be approved:

#### INCOME

Line Item	Description	Division	Amount
012 022 0229	NDPG	PED	R18 350 000
183 022 0223	EEDG	Elect. Serv.	R 2 000 000

#### EXPENDITURE

Line Item	Description	Division	Amount
012 602 5211	NDPG	PED	R18 350 000
183 600 5205	EEDG	Elect Serv.	R 2 000 000

- d) That the following roll over projects, financed from Conditional Grants, approved by National Treasury, be included in the Adjustment Budget.

Description	Division	Amount
INEP	Electrical Services	R 5 200 000
MIG	Engineering Services	R 2 300 000
NDPG	Planning & Economic Dev.	R 3 400 000
MSIG	Financial Services	<u>R 26 000</u>
	Total Amount	<u>R10 926 000</u>

- e) That the Directors manage their respective votes/departments in the Municipality in terms of Section 77 of the MFMA to ensure that no overspending occurs at 30 June 2014.
- f) That the adjustment budget and supporting documentation be submitted to national Treasury and Provincial Treasury in both printed and electronic format within 10 working days after approval by Council in terms of Section 28 (7) of the Act.
- g) That the expenditure on the water and sewer services in Mopani's area of jurisdiction be taken up with Mopani District Municipality and that a solution be seek for these matters. That the water and sewer budgets be kept as approved by Council to ensure all obligations are met.
- h) That the budget of GTEDA be included in Councils budget as an entity and that no adjustment be approved on this budget.
- i) That the savings identified on the Capital Budget be transferred to the 2014/2015 Capital Budget.
- j) That the rest of Capacity Building for Councillors be provided for in the 2014/2015 budget.
- k) That Council notes that the unauthorized expenditures be referred to MPAC for investigations and a report be tabled to Council for consideration.
- l) That the additional legal fees be investigated by MPAC and a report be tabled to Council.
- m) That the Municipal Manager develop a policy on overtime as a matter of urgency and that in the meantime intervention control measures must be put in place by the Accounting Officer before 7 March 2014.

## **DEPARTMENTAL COMMENTS**

### **COMMENTS FROM CORPORATE SERVICES**

### **COMMENTS FROM ENGINEERING SERVICES**

### **COMMENTS FROM ELECTRICAL ENGINEERING**

Although the recommendations are supported the electrical department remains concerned about the lack of funding for electrical requests in light of concerns of the electrical network dilapidated condition.

### **COMMENTS FROM PLANNING AND ECONOMIC DEVELOPMENT**

### **COMMENTS FROM COMMUNITY SERVICES**

### **COMMENTS FROM THE CFO**

### **COMMENTS FROM THE MUNICIPAL MANAGER**

### **COMMITTEE OUTCOME OR STUDY GROUP OUTCOMES**

### **RESOLVED TO RECOMMEND**

### **ATTACHMENT**